

Starboard Weekly Report Ending November 17, 2017 Chart of the Week



This monthly relative strength comparison between ISHARES High Yield ETF (HYG) and the Dow Jones Industrial Average (DOW) was produced by StockCharts.com

TECHNICAL

The HYG represents the speculative appetite for investment dollars. And although it identifies with the debt markets, when it rallies it is a good barometer for stocks. Please note how it did during the period in the green circles where stocks enjoy strong speculative surge. Missing from the norm is the recent Trump rally where the HYG plummeted (red circle) while stocks soared. The red arrow is showing the relative strength movement below the 50 month average. A great deal of the high-yield, long-term relative weakness has to do with speculative oil companies that used high yield debt to drill for oil and natural gas. Today the HYG is trading up due to a strong bounce off of its 200 day average. If this rally holds then it could mean a longer grind to the top of the market. My bet is that it does not hold and both HYG and the market continue their declines.

FUNDAMENTAL

A big reason for the decline since Trump's election is the non-deductibility of the high interest rates paid by companies that issue this type debt. As mentioned above oil and oil service companies are responsible for the long term bearishness of high yield, but over the near term Telecom companies have caused the selloff. The current Republican tax package is a huge benefit to large established companies, but the smaller public companies that rely more on debt for growth will not benefit because of the loss of tax write offs. These small public companies, along with Chapter S Corporations, create most of the jobs in this country. However, they will not fare anywhere as well as large cap Corporate America with the tax package that is currently being presented. We can see Goldman Sachs written all over the big company tax benefits within the Trump tax proposal. It is starting to look like the tax package will not become law this year and largely due to the unbalanced benefits to large companies.

ASIDE

"I am not so much concerned with the return on capital as I am with the return of capital."
Will Rogers

This is very necessary advice for High Yield buyers; and for that matter it is excellent advice for almost any investment made at this level of world markets.

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Please note: It is the client's responsibility to notify Starboard of any changes that would in any way influence their financial requirements.